

**TURN COMMUNITY SERVICES, INC.**

**FINANCIAL STATEMENTS**  
with  
**INDEPENDENT AUDITORS' REPORT**

**Years Ended June 30, 2006 and 2005**

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# CARVER HOVEY & FLOREK, LLC

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN L. CARVER, CPA  
KATHLEEN L. HOVEY, CPA  
BRENT R. FLOREK, CPA

## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
TURN Community Services, Inc.  
Salt Lake City, Utah

We have audited the accompanying statements of financial position of TURN Community Services, Inc. (a non-profit organization) as of June 30, 2006 and 2005, and the related statements of activities, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of TURN Community Services, Inc. as of June 30, 2006 and 2005, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 21, 2006 on our consideration of TURN Community Services, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

*Carver Hovey & Florek, LLC*

September 21, 2006

**TURN COMMUNITY SERVICES, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**June 30, 2006 and 2005**

|  | <u>2006</u>                | <u>2005</u>                |
|--|----------------------------|----------------------------|
| <b>ASSETS</b>                                    |                            |                            |
| Current assets:                                  |                            |                            |
| Cash and cash equivalents                        | \$ 46,319                  | \$ 149,568                 |
| Assets limited as to use (notes 1 and 2)         | 13,409                     | 14,209                     |
| Accounts receivable                              | 840,894                    | 748,584                    |
| Marketable securities                            | 118,752                    | 96,930                     |
| Prepaid expenses and other assets                | <u>52,179</u>              | <u>70,388</u>              |
| Total current assets                             | 1,071,553                  | 1,079,679                  |
| Assets limited as to use (notes 1 and 2)         | 25,000                     | 25,000                     |
| Property and equipment, net (note 3)             | 3,773,491                  | 2,898,829                  |
| Deposits   | 11,683                     | 17,883                     |
| Other assets                                     | <u>27,831</u>              | <u>24,129</u>              |
|  | <u><u>\$ 4,909,558</u></u> | <u><u>\$ 4,045,520</u></u> |
| <b>LIABILITIES AND NET ASSETS</b>                |                            |                            |
| Current liabilities:                             |                            |                            |
| Credit facility (note 8)                         | \$ 320,133                 | \$ -                       |
| Current maturities of long-term debt (note 9)    | 122,698                    | 97,016                     |
| Current portion of capital leases (note 10)      | 14,920                     | -                          |
| Accounts payable                                 | 65,915                     | 64,354                     |
| Accrued interest                                 | 9,236                      | 6,408                      |
| Accrued expenses                                 | <u>599,000</u>             | <u>576,650</u>             |
| Total current liabilities                        | 1,131,902                  | 744,428                    |
| Long-term debt, less current maturities (note 9) | 2,446,709                  | 2,207,097                  |
| Capital leases, less current portion (note 10)   | 54,745                     | -                          |
| Net assets - unrestricted                        | <u>1,276,202</u>           | <u>1,093,995</u>           |
|  | <u><u>\$ 4,909,558</u></u> | <u><u>\$ 4,045,520</u></u> |

See accompanying notes and accountants' report

**TURN COMMUNITY SERVICES, INC.**  
**STATEMENT OF ACTIVITIES**  
**For the Years Ended June 30, 2006 and 2005**

|   | <u>2006</u>         | <u>2005</u>         |
|---|---------------------|---------------------|
| <b>REVENUES</b>   |                     |                     |
| Public support and revenue:                             |                     |                     |
| Contract revenue  | \$ 9,805,739        | \$ 9,713,837        |
| Room and board  | 319,551             | 334,461             |
| Private revenue   | 164,114             | 168,590             |
| Public support  | 567,056             | 312,694             |
| Client activities                                       | 68,241              | 35,104              |
| Other income  | 11,311              | 20,255              |
| United Way  | 107,057             | 86,010              |
| Interest income   | 5,565               | 8,286               |
| Gain (loss) on sale of assets                           | 4,187               | (6,152)             |
| Total public support and revenue                        | 11,052,821          | 10,673,085          |
| <b>EXPENSES</b>   |                     |                     |
| Residential programs                                    | 6,206,438           | 6,510,413           |
| Juvenile justice programs                               | 266,610             | 246,777             |
| Diversional programs                                    | 264,847             | 236,268             |
| Hourly services   | 1,823,822           | 1,475,898           |
| Day training  | 1,982,914           | 1,684,978           |
| Outside training and other                              | 176,085             | 165,949             |
| Management and general                                  | 149,898             | 133,799             |
| Total expenses  | 10,870,614          | 10,454,082          |
| <b>INCREASE IN UNRESTRICTED NET ASSETS</b>              | 182,207             | 219,003             |
| <b>UNRESTRICTED NET ASSETS AT<br/>BEGINNING OF YEAR</b> | <u>1,093,995</u>    | <u>874,992</u>      |
| <b>UNRESTRICTED NET ASSETS AT<br/>END OF YEAR</b>       | <u>\$ 1,276,202</u> | <u>\$ 1,093,995</u> |

See accompanying notes and accountants' report

**TURN COMMUNITY SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2006**

|                                    | <b>Residential<br/>Programs</b> | <b>Juvenile<br/>Justice<br/>Programs</b> | <b>Diversion<br/>Programs</b> | <b>Hourly<br/>Services</b> |
|------------------------------------|---------------------------------|--|-------------------------------|----------------------------|
| Salaries                           | \$ 4,319,947                    | \$ 172,495                               | \$ 153,726                    | \$ 1,258,998               |
| Payroll taxes                      | 369,059                         | 14,738                                   | 13,137                        | 111,299                    |
| Employee fringe benefits           | 458,275                         | 18,347                                   | 16,354                        | 133,904                    |
| <b>Total salaries and benefits</b> | <b>5,147,281</b>                | <b>205,580</b>                           | <b>183,217</b>                | <b>1,504,201</b>           |
| Consultants/accounting             | 109,053                         | 11,711                                   | 17,698                        | 34,252                     |
| Office supplies                    | 32,682                          | 1,001                                    | 1,580                         | 12,180                     |
| Food                               | 35,739                          | 4,991                                    | 6,463                         | -                          |
| Maintenance supplies               | 12,783                          | 1,066                                    | 1,345                         | 2,621                      |
| Program supplies                   | 52,850                          | 4,794                                    | 5,045                         | 19,660                     |
| Rent                               | 160,920                         | 2,105                                    | 12,895                        | 84,619                     |
| Utilities                          | 49,657                          | 2,492                                    | 7,939                         | 5,606                      |
| Insurance                          | 24,374                          | 943                                      | 1,538                         | 3,318                      |
| Repairs and maintenance            | 55,626                          | 1,746                                    | 1,756                         | 7,199                      |
| Depreciation                       | 133,739                         | 7,595                                    | 13,107                        | 10,796                     |
| Other furniture and equipment      | 17,537                          | 327                                      | 1,554                         | 6,951                      |
| Auto expense                       | 192,599                         | 11,632                                   | 1,047                         | 101,705                    |
| Telephone                          | 35,059                          | 1,165                                    | 2,857                         | 14,893                     |
| License and permits                | 1,800                           | 467                                      | 39                            | 930                        |
| Other expense                      | 36,755                          | 1,162                                    | 2,379                         | 10,364                     |
| Fundraising expense                | -                               | -  | -                             | -                          |
| Interest expense                   | 107,984                         | 7,833                                    | 4,388                         | 4,527                      |
| <b>Total expenses</b>              | <b>\$ 6,206,438</b>             | <b>\$ 266,610</b>                        | <b>\$ 264,847</b>             | <b>\$ 1,823,822</b>        |

See accompanying notes and accountants' report

**TURN COMMUNITY SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2006**

|                               | <b>Day<br/>Training</b> | <b>Outside<br/>Training<br/>and Other</b> | <b>Management<br/>and<br/>General</b> | <b>Company<br/>Total</b> |
|-------------------------------|-------------------------|---|---------------------------------------|--------------------------|
| Salaries                      | \$ 1,217,616            | \$ -                                      | \$ 97,700                             | \$ 7,220,482             |
| Payroll taxes                 | 104,042                 | -   | 8,011                                 | 620,286                  |
| Employee fringe benefits      | 130,660                 | -   | 9,770                                 | 767,310                  |
| Total salaries and benefits   | 1,452,318               | -   | 115,481                               | 8,608,078                |
| Consultants/accounting        | 25,513                  | -   | 9,000                                 | 207,227                  |
| Office supplies               | 12,790                  | -   | 500                                   | 60,733                   |
| Food                          | -                       | 8,728                                     | -                                     | 55,921                   |
| Maintenance supplies          | 10,080                  | -   | -                                     | 27,895                   |
| Program supplies              | 27,113                  | -   | -                                     | 109,462                  |
| Rent                          | 194,947                 | -   | 12,699                                | 468,185                  |
| Utilities                     | 28,105                  | -   | -                                     | 93,799                   |
| Insurance                     | 5,227                   | -   | 145                                   | 35,545                   |
| Repairs and maintenance       | 17,122                  | -   | -                                     | 83,449                   |
| Depreciation                  | 39,806                  | -   | -                                     | 205,043                  |
| Other furniture and equipment | 11,375                  | 136,104                                   | -                                     | 173,848                  |
| Auto expense                  | 108,625                 | 2,186                                     | 3,458                                 | 421,252                  |
| Telephone                     | 17,111                  | 2,040                                     | 5,224                                 | 78,349                   |
| License and permits           | 2,823                   | -   | -                                     | 6,059                    |
| Other expense                 | 9,955                   | 2,568                                     | 3,391                                 | 66,574                   |
| Fundraising expense           | -                       | 24,459                                    | -                                     | 24,459                   |
| Interest expense              | 20,004                  | -   | -                                     | 144,736                  |
| Total expenses                | <u>\$ 1,982,914</u>     | <u>\$ 176,085</u>                         | <u>\$ 149,898</u>                     | <u>\$ 10,870,614</u>     |

See accompanying notes and accountants' report

**TURN COMMUNITY SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2005**

|                                 | <b>Residential<br/>Programs</b> | <b>Juvenile<br/>Justice<br/>Programs</b> | <b>Diversion<br/>Programs</b> | <b>Hourly<br/>Services</b> |
|---------------------------------|---------------------------------|--|-------------------------------|----------------------------|
| Salaries                        | \$ 4,528,316                    | \$ 165,525                               | \$ 127,596                    | \$ 1,014,584               |
| Payroll taxes                   | 397,820                         | 14,650                                   | 8,873                         | 89,810                     |
| Employee fringe benefits        | 476,353                         | 17,542                                   | 20,027                        | 107,540                    |
| <br>Total salaries and benefits | <br>5,402,489                   | <br>197,717                              | <br>156,496                   | <br>1,211,934              |
| <br>Consultants/accounting      | <br>114,699                     | <br>5,286                                | <br>16,093                    | <br>28,356                 |
| Office supplies                 | 32,245                          | 1,132                                    | 1,596                         | 9,282                      |
| Food                            | 31,514                          | 4,700                                    | 5,711                         | -                          |
| Maintenance supplies            | 11,954                          | 1,263                                    | 1,333                         | 2,225                      |
| Program supplies                | 62,173                          | 5,748                                    | 6,807                         | 12,933                     |
| Rent                            | 209,778                         | 2,045                                    | 12,725                        | 73,577                     |
| Utilities                       | 45,865                          | 2,274                                    | 6,728                         | 5,436                      |
| Insurance                       | 18,108                          | 847                                      | 1,360                         | 3,934                      |
| Repairs and maintenance         | 82,656                          | 1,735                                    | 4,012                         | 4,442                      |
| Depreciation                    | 142,117                         | 7,608                                    | 9,378                         | 5,686                      |
| Other furniture and equipment   | 26,328                          | 1,173                                    | 2,240                         | 8,903                      |
| Auto expense                    | 173,140                         | 5,253                                    | 1,153                         | 83,745                     |
| Telephone                       | 32,209                          | 1,349                                    | 2,765                         | 12,674                     |
| License and permits             | 2,413                           | 459                                      | 34                            | 725                        |
| Other expense                   | 30,740                          | 1,086                                    | 1,319                         | 9,905                      |
| Fundraising expense             | -                               | -  | -                             | -                          |
| Interest expense                | 91,985                          | 7,102                                    | 6,518                         | 2,141                      |
| <br>Total expenses              | <br><u>\$ 6,510,413</u>         | <br><u>\$ 246,777</u>                    | <br><u>\$ 236,268</u>         | <br><u>\$ 1,475,898</u>    |

See accompanying notes and accountants' report



**TURN COMMUNITY SERVICES, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year Ended June 30, 2005**

|                               | <b>Day<br/>Training</b> | <b>Outside<br/>Training<br/>and Other</b> | <b>Management<br/>and<br/>General</b> | <b>Company<br/>Total</b> |
|-------------------------------|-------------------------|---|---------------------------------------|--------------------------|
| Salaries                      | \$ 1,031,608            | \$ 10,203                                 | \$ 84,390                             | \$ 6,962,222             |
| Payroll taxes                 | 91,316                  | 28  | 6,920                                 | 609,417                  |
| Employee fringe benefits      | 109,338                 | 1,954                                     | 8,439                                 | 741,193                  |
| Total salaries and benefits   | 1,232,262               | 12,185                                    | 99,749                                | 8,312,832                |
| Consultants/accounting        | 16,390                  | -   | 9,000                                 | 189,824                  |
| Office supplies               | 10,017                  | -   | 500                                   | 54,772                   |
| Food                          | -                       | 8,349                                     | -                                     | 50,274                   |
| Maintenance supplies          | 9,602                   | -   | -                                     | 26,377                   |
| Program supplies              | 24,707                  | 11,285                                    | -                                     | 123,653                  |
| Rent                          | 183,089                 | -   | 12,414                                | 493,628                  |
| Utilities                     | 25,601                  | -   | -                                     | 85,904                   |
| Insurance                     | 5,888                   | -   | 571                                   | 30,708                   |
| Repairs and maintenance       | 8,428                   | -   | -                                     | 101,273                  |
| Depreciation                  | 22,116                  | -   | -                                     | 186,905                  |
| Other furniture and equipment | 15,104                  | 115,740                                   | -                                     | 169,488                  |
| Auto expense                  | 93,059                  | 704                                       | 2,818                                 | 359,872                  |
| Telephone                     | 11,655                  | -   | 4,749                                 | 65,401                   |
| License and permits           | 1,195                   | -   | -                                     | 4,826                    |
| Other expense                 | 10,764                  | 1,244                                     | 3,998                                 | 59,056                   |
| Fundraising expense           | -                       | 16,442                                    | -                                     | 16,442                   |
| Interest expense              | 15,101                  | -   | -                                     | 122,847                  |
| Total expenses                | <u>\$ 1,684,978</u>     | <u>\$ 165,949</u>                         | <u>\$ 133,799</u>                     | <u>\$ 10,454,082</u>     |

See accompanying notes and accountants' report

**TURN COMMUNITY SERVICES, INC.**  
**STATEMENT OF CASH FLOWS**  
**For the Years Ended June 30, 2006 and 2005**

|  | <u>2006</u>             | <u>2005</u>              |
|--|-------------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                         |                          |
| Increase in net assets   | \$ 182,207              | \$ 219,003               |
| Adjustments to reconcile increase in net assets to<br>net cash provided by operating activities: |                         |                          |
| Depreciation and amortization  | 206,974                 | 188,494                  |
| Unrealized gain on investments   | (3,279)                 | (6,107)                  |
| Changes in operating assets and liabilities:   |                         |                          |
| Accounts receivable  | (92,310)                | 66,361                   |
| Prepaid expense, deposits and other assets   | 24,409                  | (35,653)                 |
| Accounts payable   | 1,561                   | (15,534)                 |
| Accrued liabilities  | 25,178                  | 42,456                   |
| <b>NET CASH PROVIDED BY OPERATING<br/>ACTIVITIES</b>   | <u>344,740</u>          | <u>459,020</u>           |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                         |                          |
| Purchase of property and equipment   | (1,005,293)             | (343,932)                |
| Purchase of investments available for sale   | (18,543)                | (20,000)                 |
| Purchase of intangible assets  | -                       | (16,716)                 |
| Transfer to assets limited as to use   | 800                     | 2,696                    |
| <b>NET CASH USED IN INVESTING ACTIVITIES</b>   | <u>(1,023,036)</u>      | <u>(377,952)</u>         |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                         |                          |
| Proceeds from borrowing on short-term debt   | 320,133                 | -                        |
| Principal payments of short-term debt  | -                       | (57,351)                 |
| Proceeds from borrowing on long-term debt  | 371,919                 | 210,500                  |
| Principal payments of long-term debt   | (112,258)               | (91,779)                 |
| Principal payments of capital leases   | (4,747)                 | -                        |
| <b>NET CASH PROVIDED BY FINANCING<br/>ACTIVITIES</b>   | <u>575,047</u>          | <u>61,370</u>            |
| <b>NET INCREASE (DECREASE) IN CASH AND<br/>CASH EQUIVALENTS</b>                                  | (103,249)               | 142,438                  |
| <b>CASH &amp; CASH EQUIVALENTS AT<br/>BEGINNING OF YEAR</b>                                      | <u>149,568</u>          | <u>7,130</u>             |
| <b>CASH &amp; CASH EQUIVALENTS AT END OF YEAR</b>  | <u><u>\$ 46,319</u></u> | <u><u>\$ 149,568</u></u> |

See accompanying notes and accountants' report

**TURN COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2006 and 2005**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Nature of Activities**

TURN Community Services, Inc. (the Organization) is a non-profit corporation organized under the Utah Nonprofit Corporation and Cooperative Association Act. The Organization's principal objective and purpose is to provide services to and promote the general welfare of people with disabilities of all ages in the State of Utah.

**Basis of Accounting**

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Accordingly, investments are reported at fair value, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Basis of Presentation**

In accordance with SFAS No. 117, Financial Statements of Not-for-Profit Organizations, the Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. However, the Organization had no temporarily or permanently restricted net assets during the years ended June 30, 2006 and 2005.

**Use of Estimates**

The financial statements include estimates and assumptions made by management that affect the carrying amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. Actual results could differ from those estimates.

**Property and Equipment**

Acquisitions of property and equipment in excess of \$1,000 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is computed on the straight-line method over the estimated useful lives of the assets (3 to 30 years).

**Restricted and Unrestricted Revenue**

Contributions received that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

**TURN COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2006 and 2005**

**1. NATURE OF ACTIVITIES AND SUMMARY OF SIGNIFICANT ACCOUNTING  
POLICIES (continued)**

**Investments**

Investments in equity securities with readily determinable fair values and all investments in debt securities are measured at fair value in the statements of financial position. Unrealized gains or losses on investments are reflected in the statements of activities.

**Concentration of Revenue Sources**

Service contracts with the Utah Department of Human Services represent approximately 90 percent and 92 percent of the Organization's source of revenues for each of the years ended June 30, 2006 and 2005, respectively.

**Income Taxes**

The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income.

**Cash and Cash Equivalents**

Cash and cash equivalents includes all unrestricted monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

**Assets Limited as to Use**

Assets deposited with a trustee under terms of the note indenture (note 8) are classified as assets limited as to use. Amounts required to meet current liabilities have been included in cash and cash equivalents.

**Other Assets**

Other assets are comprised of unamortized mortgage and bond issuance costs. Mortgage issuance costs are amortized on the straight-line method over the terms of the mortgages. Bond issuance costs were incurred in connection with the issuance of the Clearfield City, UT/UTARF, Series 1997 Tax Exempt Bonds and are amortized over the term of the bonds using the effective-interest method.

**Functional Allocation of Expenses**

The costs of providing the various programs and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

**TURN COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2006 and 2005**

**2. ASSETS LIMITED AS TO USE**

The assets limited as to use are comprised of the following as of June 30, 2006 and 2005:

|  | <u>2006</u>      | <u>2005</u>      |
|--|------------------|------------------|
| Cash in Money Market accounts,<br>designated for the bond sinking fund | <u>\$ 13,409</u> | <u>\$ 14,209</u> |
| Debt Service Reserve Fund  | <u>\$ 25,000</u> | <u>\$ 25,000</u> |

**3. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of June 30, 2006 and 2005:

|                       | <u>2006</u>         | <u>2005</u>         |
|-----------------------|---------------------|---------------------|
| Land                  | \$ 684,962          | \$ 573,962          |
| Building              | 2,587,215           | 2,154,592           |
| Building improvements | 984,694             | 580,170             |
| Furniture & equipment | 423,804             | 391,261             |
| Vehicles              | <u>473,550</u>      | <u>374,535</u>      |
|                       | \$ 5,154,225        | \$ 4,074,520        |
|                       | <u>(1,380,734)</u>  | <u>(1,175,691)</u>  |
|                       | <u>\$ 3,773,491</u> | <u>\$ 2,898,829</u> |

**TURN COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2006 and 2005**

**4. OTHER ASSETS**

Other assets at June 30, 2006 and 2005 consisted of the following:

|                          | 2006             | 2005             |
|--------------------------|------------------|------------------|
| Mortgage issuance costs  | \$ 22,352        | \$ 16,719        |
| Bond issuance costs      | 16,880           | 16,880           |
|                          | 39,232           | 33,599           |
| Accumulated amortization | (11,401)         | (9,470)          |
|                          | <u>\$ 27,831</u> | <u>\$ 24,129</u> |

**5. SUPPLEMENTAL CASH FLOW INFORMATION**

Cash paid for interest totaled \$138,585 and \$125,627, in 2006 and 2005, respectively. Additionally, in 2006, the Organization acquired fixed assets through capital leases valued at \$74,412.

**6. MARKETABLE SECURITIES**

Marketable securities are comprised of available-for-sale investments in mutual funds with holdings in equity and debt securities. Gain and losses, including those resulting from unrealized changes in fair value, are reported under public support and revenue in the accompanying statement of activities. The cost, fair value, and unrealized holding gains and losses on marketable securities at June 30, 2006 and 2005 are as follows:

|      | Cost       | Unrealized<br>Holding<br>Gain (Loss) | Fair<br>Value |
|------|------------|--------------------------------------|---------------|
| 2006 | \$ 114,046 | \$ 4,706                             | \$ 118,752    |
| 2005 | \$ 100,046 | \$ (3,116)                           | \$ 96,930     |

**TURN COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
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**7. RETIREMENT PLANS**

The Organization established a 401(k) retirement plan and a deferred compensation plan on July 1, 1997 for all eligible employees with six months (or over) of service. Eligible employees may elect to contribute up to 20 percent of their annual compensation to the plan. The Organization may match 50 percent of the employee's contributions up to 6 percent of their gross pay. For the fiscal years 2006 and 2005, the Organization contributed \$55,339 and \$53,313, respectively, to the 401(k) plan. The Organization did not contribute to the deferred compensation plan in 2006.

**8. CREDIT FACILITY**

The Organization has a \$500,000 credit facility with Wells Fargo bank. The interest rate is calculated based on Prime plus 1.00% which, as of June 30, 2006 was 9.25%. The credit facility expires December 2, 2006. Interest expense relating to the credit facility totaled \$7,904 and \$2,534 for the years ending June 30, 2006 and 2005, respectively.

**TURN COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2006 and 2005**

**9. LONG-TERM DEBT**

Long-term debt consisted of the following at June 30, 2006 and 2005:

| Lending Institution                     | Collateral     | Interest Rate | Monthly Payment | Due Date | 2006                | 2005                |
|---|----------------|---------------|-----------------|----------|---------------------|---------------------|
| Wells Fargo                             | Vehicles       | 6.51%         | \$ 481          | 11/2010  | \$ 12,451           | \$ -                |
| Far West Bank                           | Real estate    | 9.25%         | 2,261           | 03/2012  | 121,035             | 146,076             |
| Farr West Bank                          | Vehicles       | 5.75%         | 273             | 06/2007  | 3,423               | 6,394               |
| Dept. of Community & Econ Dev.          | Real estate    | 5.50%         | 681             | 06/2031  | 110,787             | 110,447             |
| Clearfield City/UARF Bonds              | Real est & A/R | 7.45%         | 1,202           | 02/2012  | 170,000             | 185,000             |
| U.S. Department of Agriculture          | Vehicles       | 4.75%         | 351             | 05/2009  | 9,269               | 15,165              |
| U.S. Department of Agriculture          | Vehicles       | 5.00%         | 404             | 08/2010  | 16,336              | 22,607              |
| U.S. Department of Agriculture          | Real estate    | 5.13%         | 2,166           | 07/2024  | 310,822             | 320,400             |
| U.S. Department of Agriculture          | Real estate    | 5.13%         | 464             | 11/2028  | 75,690              | 77,314              |
| Morgan Stanley                          | Real estate    | 5.75%         | 879             | 10/2034  | 158,210             | 160,549             |
| Oleane Walker Housing Loan Fund         | Real estate    | 3.00%         | 235             | 04/2034  | 52,007              | 53,625              |
| Oleane Walker Housing Loan Fund         | Real estate    | 3.00%         | 215             | 04/2034  | 48,920              | 50,391              |
| Oleane Walker Housing Loan Fund         | Real estate    | 0.00%         | 140             | 09/2033  | 178,506             | 114,637             |
| Irwin Mortgage                          | Real estate    | 6.38%         | 566             | 09/2035  | 88,957              | 90,040              |
| Irwin Mortgage                          | Real estate    | 6.38%         | 518             | 09/2035  | 81,333              | 82,324              |
| Irwin Mortgage                          | Real estate    | 6.38%         | 800             | 09/2035  | 125,750             | 127,282             |
| Irwin Mortgage                          | Real estate    | 6.38%         | 1,003           | 09/2035  | 157,338             | 159,487             |
| Irwin Mortgage                          | Real estate    | 6.38%         | 809             | 09/2035  | 127,221             | 128,770             |
| Irwin Mortgage                          | Real estate    | 6.38%         | 729             | 09/2035  | 114,622             | 116,017             |
| Irwin Mortgage                          | Real estate    | 6.38%         | 776             | 09/2035  | 122,024             | 123,511             |
| Irwin Mortgage                          | Real estate    | 6.38%         | 583             | 09/2035  | 91,629              | 92,745              |
| Irwin Mortgage                          | Real estate    | 6.75%         | 649             | 03/2036  | 99,653              | -                   |
| Irwin Mortgage                          | Real estate    | 6.75%         | 1,219           | 03/2036  | 187,347             | -                   |
| Washington Assc of Retarded Citizens    | Real estate    | 5.00%         | 926             | 09/2035  | 106,077             | 111,732             |
| Washington Assc of Retarded Citizens    | Real estate    | 0.00%         | 800             | 09/2035  | -                   | 9,600               |
| TOTAL                                   |                |               |                 |          | 2,569,407           | 2,304,113           |
| Less current maturities                 |                |               |                 |          | 122,698             | 97,016              |
| Long-term debt, less current maturities |                |               |                 |          | <u>\$ 2,446,709</u> | <u>\$ 2,207,097</u> |

| Year ended | Amount              |
|------------|---------------------|
| June 30    |                     |
| 2006       | \$ 122,698          |
| 2007       | 136,381             |
| 2008       | 116,939             |
| 2009       | 84,300              |
| 2010       | 83,912              |
| Thereafter | 2,025,177           |
|            | <u>\$ 2,569,407</u> |



**TURN COMMUNITY SERVICES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**For the Years Ended June 30, 2006 and 2005**

**10. CAPITAL LEASES**

During fiscal year 2006, the Company entered into various capital lease agreements expiring 2010. The assets and liabilities under capital leases are recorded at the lower of the present value of the minimum lease payments or the fair value of the asset. The assets are amortized over the lower of their related lease terms or their estimated productive lives. Amortization of the assets under capital leases is included in the depreciation expense for 2006. The obligations under capital leases are secured by the vehicles with a net book value of \$69,451 at June 30, 2006.

Future minimum lease payments under capital leases for each of the next five years are as follows:

| <u>Year end December 31,</u>            |                         |
|---|-------------------------|
| 2007                                    | \$ 19,344               |
| 2008                                    | 19,344                  |
| 2009                                    | 19,344                  |
| 2010                                    | 19,344                  |
| 2011                                    | <u>3,224</u>            |
|   | 80,600                  |
| Less: imputed lease finance costs       | <u>(10,935)</u>         |
| Present value of minimum lease payments | 69,665                  |
| Less: current portion                   | <u>(14,920)</u>         |
| Long-term portion                       | <u><u>\$ 54,745</u></u> |

**11. OPERATING LEASES**

Total annual rent expense from operating leases was \$493,627 and \$565,359 for the years ended June 30, 2006 and 2005, respectively.

Operating Lease commitments for the next five years are as follows:

| <u>Year ended</u><br><u>June 30</u> | <u>Amount</u>            |
|-------------------------------------|--------------------------|
| 2007                                | \$ 326,106               |
| 2008                                | 283,632                  |
| 2009                                | 192,558                  |
| 2010                                | 73,406                   |
| 2011                                | <u>-</u>                 |
|                                     | <u><u>\$ 875,702</u></u> |



## CARVER HOVEY & FLOREK, LLC

CERTIFIED PUBLIC ACCOUNTANTS

STEVEN L. CARVER, CPA  
KATHLEEN L. HOVEY, CPA  
BRENT R. FLOREK, CPA

### REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees of  
TURN Community Services, Inc.

We have audited the financial statements of TURN Community Services, Inc. (TURN) (a non-profit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated September 21, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

#### Compliance

As part of obtaining reasonable assurance about whether TURN's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

#### Internal Control Over Financial Reporting

In planning and performing our audit, we considered TURN's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information and use of the management of TURN Community Services, Inc. and state and federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

*Carver Hovey & Florek, LLC*

September 21, 2006